

**BEFORE  
THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA**

**DOCKET NO. 2018-318-E**

|                                      |   |                         |
|--------------------------------------|---|-------------------------|
| In the Matter of:                    | ) |                         |
|                                      | ) | <b>REVISED REBUTTAL</b> |
|                                      |   | <b>TESTIMONY OF</b>     |
| Application of Duke Energy Progress, | ) | <b>LAURA BATEMAN</b>    |
| LLC for Adjustments in Electric Rate | ) | <b>FOR DUKE ENERGY</b>  |
| Schedules and Tariffs                | ) | <b>PROGRESS, LLC</b>    |

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**I.     INTRODUCTION AND PURPOSE**

1     **Q.     PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND**  
2           **CURRENT POSITION.**

3     A.     My name is Laura A. Bateman and my business address is 411 Fayetteville  
4           Street, Raleigh, North Carolina. I am a Director of Rates and Regulatory  
5           Planning, employed by Duke Energy Carolinas, LLC, testifying on behalf  
6           of Duke Energy Progress (“DE Progress” or the “Company”).

7     **Q.     DID YOU PREVIOUSLY FILE DIRECT TESTIMONY IN THIS**  
8           **PROCEEDING?**

9     A.     Yes, I did. I filed direct testimony and exhibits in this docket on November  
10          8, 2018. I filed supplemental direct testimony exhibits on January 18,  
11          2019.

12    **Q.     WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

13    A.     The purpose of my rebuttal testimony is to respond to certain accounting  
14          and ratemaking adjustments proposed by the Office of Regulatory Staff  
15          (“ORS”), and to respond to the ORS’s recommendations with regards to  
16          deferred costs that would result in the Company not being able to fully  
17          recover its prudently incurred costs.

18    **Q.     DOES YOUR TESTIMONY INCLUDE ANY EXHIBITS?**

19    A.     Yes, I have included two exhibits. Bateman Rebuttal Exhibit 1, which is an  
20          informational filing and a revision of the original Bateman Exhibit 1 filed  
21          with my direct testimony. Bateman Rebuttal Exhibit 1 shows the

1 Company's revised revenue requirement incorporating the Company's  
 2 adjustments filed in its supplemental filing and the Company's rebuttal  
 3 position in this case. Bateman Rebuttal Exhibit 3 shows the proposed  
 4 EDIT Rider updated for the change in cost of debt supported in the  
 5 rebuttal testimony of Company witness Sullivan.

6 **Q. WERE THESE EXHIBITS PREPARED BY YOU OR UNDER**  
 7 **YOUR DIRECTION AND SUPERVISION?**

8 A. Yes, these exhibits were prepared under my supervision.

9 **II. RESPONSE TO THE OFFICE OF REGULATORY STAFF**  
 10 **ACCOUNTING ADJUSTMENTS**

11 *Adjustments Not Opposed*

12 **Q. ARE THERE ANY ACCOUNTING ADJUSTMENTS WHERE THE**  
 13 **COMPANY AND THE ORS AGREE BASED ON THE COMPANY'S**  
 14 **FILING MADE ON NOVEMBER 8<sup>TH</sup>, 2018?**

15 A. Yes, there are thirteen accounting adjustments where the Company and the  
 16 ORS agree based on the filing the Company made on November 8, 2018.

17 #1 – Annualize Retail revenues for current rates

18 #2 – Update fuel costs to approved rate and other fuel related adjustments

19 #3 – Adjust Other Revenue

20 #5 – Eliminate unbilled revenues

21 #6 – Adjust for cost recovered through non-fuel riders

22 #9 – Annualize property taxes on year end plant balances

23 #10 – Adjust for new depreciation rates

- 1           #12 – Remove NCEMPA Acquisition Adjustment
- 2           #13 – Remove expiring amortization credits from test year
- 3           #16 – Adjust for coal inventory
- 4           #24 – Levelize nuclear refueling outage costs
- 5           #26 – Adjust aviation expenses
- 6           #34 – Adjust for tax rate change

7   **Q.     ARE THERE ADDITIONAL ADJUSTMENTS RECOMMENDED**  
8   **BY THE ORS WITH WHICH THE COMPANY AGREES?**

9   A.     Yes, there are 5 recommended adjustments by the ORS with which the  
10          Company agrees as detailed below. These adjustments reflect the update of  
11          estimates to actuals and additional adjustments to the Company's cost of  
12          service, some of which were reflected in Bateman Supplemental Exhibit 1.  
13          Bateman Rebuttal Exhibit 1 incorporates these adjustments, which are  
14          listed below.

- 15          #8 – Annualize depreciation on year end plant balances
- 16          #11 – Adjust for post test year additions to plant in service
- 17          #23 – Update benefit costs
- 18          #31 – Adjust vegetation management expenses
- 19          #37 – Adjust for Allocation of PUC License Tax Expense

*ORS Adjustments Opposed by the Company*

**Q. PLEASE SUMMARIZE THE ORS'S RECOMMENDATION WITH REGARD TO DEFERRALS.**

A. The ORS makes several recommendations with regards to deferred costs that would in effect deny the Company recovery of prudently incurred costs. These recommendations are primarily discussed in the testimony of ORS witness Payne. There are a number of deferrals in this case, which include carrying costs. Carrying costs are necessary to ensure that the Company recovers the full value and effect of the deferral. No one contests the prudence of the expenses in the deferrals though ORS devalues the deferrals by disallowing carrying costs, or a return, and, in most cases, significantly extending the recovery period for the deferred costs.

First, the ORS recommends that the Company be disallowed the return on the incremental costs, which the Company has deferred in a regulatory asset on its books, during the deferral period. ORS witness Payne offers no justification for the disallowance other than citing the portion of the deferral order that states that "(s)uch relief will not prejudice the right of any party to address the prudence of such costs in a subsequent rate proceeding." If ORS witness Payne alleges that the deferred costs were imprudent, he offers no argument explaining such allegation in his testimony. Second, the ORS recommends that the Company be disallowed a return during the amortization period for the portion of the regulatory

1 assets that relate to operating expenses. Finally, in the testimony of ORS  
2 witness Morgan, the ORS recommends unnecessarily long recovery  
3 periods for the deferred costs, increasing the amount of disallowance to  
4 the Company due to the cost of money.

5 **Q. WHICH ADJUSTMENTS ARE IMPACTED BY THE ORS**  
6 **RECOMMENDATIONS REGARDING DEFERRALS?**

7 A. The differences in the Company's position and the ORS's position on the  
8 adjustments listed below are related to the treatment of deferrals.

9 #17 – Adjust previously deferred amounts – Harris COLA, GridSouth,  
10 Fukushima/CyberSecurity, 2014 Storms

11 #18 - Amortize deferred environmental costs

12 #19 – Amortize Deferred Cost Balance Related to SC AMI

13 #25 - Amortize rate case costs

14 #30 - Adjust for Customer Connect additional expense and deferral

15 #35 – Adjust deferred cost balance related to SC Grid

16 The Company and the ORS also have additional areas of disagreement on  
17 Adjustments #18, #25, and #30, which I address later in my testimony.

18 **Q. DOES THE COMPANY OPPOSE THESE ORS**  
19 **RECOMMENDATIONS REGARDING DEFERRALS?**

20 A. Yes. The Company strongly opposes these recommendations as I explain  
21 below and as further explained in the rebuttal testimonies of Company  
22 witnesses Ghartey-Tagoe, Wright and Hevert.

1           ORS witness Payne recommends separating the deferred balances  
2           into two categories – deferred operating expenses (including O&M,  
3           depreciation expense and property taxes on plant in-service) and deferred  
4           capital costs (which, under his definition, only includes deferred return on  
5           capital investments). ORS witness Payne then goes on to recommend that  
6           the Company be disallowed a return on the deferred operating expenses  
7           over the entire amortization period, in some cases under the ORS  
8           recommendation, as long as 15 years. He argues that the Company would  
9           not have earned a return had the costs not been deferred. In other words,  
10          had the Company collected the costs from customers in the period which  
11          the costs had been incurred, the Company would have no financing  
12          requirements and would not need to earn a return. First his logic is flawed  
13          because these costs are incremental and could not have been collected  
14          from customers in the period in which they were incurred. Furthermore,  
15          this logic is misplaced and inconsistent with other carrying costs that the  
16          ORS is willing to accept when they are beneficial to customers, as  
17          explained below. Moreover, stretching out cost recovery to life of plant as  
18          the ORS recommends is a capital-based concept. It is inappropriate to treat  
19          costs like capital costs in terms of length of recovery, but not allow them  
20          to be placed into rate base or collect carrying costs like undepreciated  
21          capital would receive.

22                 Applying ORS logic in an even-handed manner, if the Company  
23                 must accept the weight of carrying costs on expenses to be paid by

1 customers, then it should also accept the benefit of carrying costs which it  
2 was otherwise willing to pay customers. The inequity of the ORS  
3 argument is clear when one considers deferred income taxes. Income taxes  
4 are an operating expense. Deferred income taxes result from the timing  
5 difference from when the Company pays the cash for the expense and  
6 when the costs are recovered in customer rates. The only difference is that  
7 the amounts are collected in rates before the Company pays the cash,  
8 resulting in a regulatory liability, instead of a regulatory asset. In order to  
9 be consistent in its position, the ORS would need to also recommend  
10 removing the deferred tax liabilities from rate base since these are the  
11 result of deferred operating expenses. For DE Progress, the accumulated  
12 deferred income tax plus excess deferred income tax balances included as  
13 a reduction to rate base in this case are \$414 million. Removing these  
14 items from rate base would result in a 27 percent increase in rate base. If  
15 the ORS were to consistently apply its logic, it would be a significant  
16 detriment to customers if taken to its logical conclusion.

17 The appropriate and more equitable treatment, and the one  
18 proposed by the Company, is to continue to include the deferred taxes in  
19 rate base recognizing that the Company has additional cash that can be  
20 used to finance utility investments and customers should receive a return  
21 on the Company's use of that cash. In the same way, the regulatory assets  
22 resulting from the Commission approved deferrals, including the deferred  
23 operating expenses, are appropriate to include in rate base because there is



1 a timing difference between when amounts are paid and when they are  
2 collected from customers. During this time, the Company must incur  
3 additional financing costs related to the cash it has borrowed for the  
4 amounts it has expended but not yet collected from customers.

5 In his testimony, ORS witness Payne references that the National  
6 Association of Utility Commissioners (“NARUC”) Rate Case and Audit  
7 Manual states that regulatory assets and other deferrals should be  
8 examined to determine if the deferred costs are appropriate to be included  
9 in rate base. The manual says nothing about splitting the regulatory assets  
10 between deferred operating expenses and deferred capital costs. I have  
11 never heard of this concept before and, as far as the Company can tell, the  
12 ORS developed this idea in isolation without any supporting industry  
13 manuals, documentation or precedent. The NARUC manual that ORS  
14 witness Payne refers to states:

15 “In looking at the nature of the deferrals, the auditor should  
16 consider whether the deferral is appropriate for inclusion in rate  
17 base. For instance, is the utility deferring certain fuel or purchased  
18 power expenses under a mechanism that is approved by the  
19 Commission allowing for dollar-for-dollar recovery of those  
20 costs?” (Pages 22-23)

21 Consistent with what this manual appears to be referring to, the Company  
22 does not and is not proposing in this case to earn a return on its deferred  
23 fuel balances. The deferred balances at question in this case are very

1 different, and both the Company and the ORS have proposed multi-year  
2 recovery periods. While the Company would still disagree, if the ORS  
3 were proposing recovery of the deferred costs through a one-year rider,  
4 their proposed rate base treatment would at least be more logical and  
5 consistent with the NARUC manual. That is not the case.

6 The ORS recommendations discussed above suggest a business  
7 can borrow money for free. However, investors do not provide interest free  
8 loans.

9 **Q. HOW WOULD YOU SUMMARIZE THE COMPANY'S POSITION**  
10 **ON RETURNS ON DEFERRALS?**

11 A. Deferrals, by definition, recognize that the Company is incurring a cost  
12 that is not currently recovered in customer rates. The Company is  
13 incurring costs related to these deferrals. Those costs, whether designated  
14 as capital or operating expense for accounting purposes, require cash. That  
15 cash must be obtained from the Company's debt and equity investors. And  
16 those investors require interest, or a return, on the cash they have invested  
17 in the Company. These financing costs (the return on the deferred costs)  
18 are a real cost that the Company incurs and to disallow recovery of these  
19 costs during the deferral period or the amortization period would be to  
20 disallow prudently incurred costs.

1 **Q. WHAT IS YOUR RESPONSE TO THE AMORTIZATION PERIOD**  
2 **LENGTHS PROPOSED BY ORS WITNESS PAYNE?**

3 A. The chart below shows the deferrals for which ORS witness Payne  
4 recommends longer amortization periods than what the Company recommends.

| Adj #    | Adjustment          | Deferred<br>Balance<br>(\$MM) | Company<br>Position | Company<br>Position | ORS<br>Position |
|----------|---------------------|-------------------------------|---------------------|---------------------|-----------------|
|          |                     | Company<br>Position           |                     |                     |                 |
| SC -1700 | Harris COLA         | \$6.7                         | 5                   | 8                   |                 |
| SC -1900 | SC AMI (new meters) | \$1.6                         | 3                   | 15                  |                 |
| SC -3500 | SC Grid             | \$2.2                         | 2                   | 5                   |                 |

5 While exact amortization periods are subjective, there needs to be a  
6 balance and consideration of both the impact on customer rates and the  
7 impact on the Company's cash flow. Given the deferred balances, the  
8 amortization periods proposed by ORS witness Payne are excessive and  
9 unnecessarily long for these deferrals. In addition, I will point out that as  
10 in DEP's last rate case, the Company agreed to delay beginning the  
11 amortization on both the Harris COLA and Fukushima/Cyber Security  
12 deferred balances. In this case, the ORS recommends an 8-year  
13 amortization period for the Harris COLA costs because that is the length  
14 of time over which the costs were incurred. However, this  
15 recommendation fails to recognize that absent the settlement in the last  
16 case, the Company would have begun amortizing these costs starting  
17 January 1, 2017. Had the Company used an 8-year period to amortize the

1 costs at that point, there would only be five and a half years remaining in  
2 the amortization period by the time new rates are effective in this case.  
3 Therefore, even using the ORS's logic, the Company's proposed  
4 amortization period is more appropriate. Finally, since the ORS has  
5 recommended to disallow the return during the amortization period on a  
6 portion of all the deferrals, the longer amortization periods exacerbate the  
7 disallowance. Again, the logic is contradictory. ORS doesn't support a  
8 return because the costs were not originally classified as capital, but then  
9 turns around and treats them like capital by proposing the AMI deferral be  
10 recovered over the life of the assets. Therefore, the Company opposes  
11 these recommendations.

12 **Q. PLEASE DESCRIBE THE COMPANY'S RESPONSE TO THE**  
13 **REMAINING ORS PROPOSED ADJUSTMENTS.**

14 A. The Company opposes the ORS recommendations on the remaining  
15 adjustments. The Company's positions on the remaining ORS adjustments  
16 are explained below.

17 **Adjustment #18 – Amortize deferred environmental costs**

18 The Company opposes the adjustments recommended by the ORS. First,  
19 the ORS recommends disallowing a portion of the returns on the  
20 components of the deferral relating to capital investments at operating  
21 plants. The punitive nature of the adjustment recommended by Witness  
22 Payne to disallow the return on the deferred costs for this component  
23 during the deferral period and not earn a return during the time period

1 when the costs are being recovered (amortization period) is discussed  
2 above. The Company also vigorously opposes the ORS recommendations  
3 to disallow certain coal ash related costs for the reasons set forth in the  
4 rebuttal testimony of Company witnesses Kerin and Wright.

5 **Adjustment #20 – Normalize for storm costs**

6 The Company's pro forma adjustment normalizes storm restoration costs  
7 to the average level of costs the Company experienced over the past ten  
8 years. However, ORS witness Morgan recommends eliminating the  
9 expenses in the highest and lowest years to use an eight-year average  
10 expense level. The Company does not oppose this component of the ORS  
11 adjustment. However, the ORS adjustment also removes the inflation  
12 impact to storm costs, which is not described in ORS's testimony and has  
13 a larger impact on the average. The Company does oppose this component  
14 of the ORS's adjustment, as it is unreasonable and ignores the current  
15 costs implicated in addressing storms.

16 The Company's adjustment adjusts each storm cost year included  
17 in the ten-year average to be comparable to the test year on an inflation  
18 adjusted basis. This is appropriate because as with the costs of other goods  
19 and services, the costs associated with storm restoration – e.g., the costs  
20 for contract labor, such as line workers and tree professionals, materials,  
21 and staging and logistics – have increased significantly in the last ten  
22 years. In fact, the average annual inflation rate calculated by the Company  
23 for the ten years beginning in 2008 is 1.422 percent per year, or 14.22

1 percent over the ten-year period. This adjustment is more than reasonable  
2 given that DE Progress' contract labor costs alone have increased 25  
3 percent from 2008 to 2017.<sup>1</sup> By removing the Company's inflation  
4 adjustment, the ORS seems to be implying that the Company should be  
5 able to hire contractors to work on storm restoration in 2019 for the exact  
6 same hourly rate it paid them in 2008. This is not realistic, and this portion  
7 of the ORS adjustment should be rejected by the Commission. Bateman  
8 Rebuttal Exhibit 1, Page 3, Line 20 updates this adjustment to reflect the  
9 ORS's recommendation to use an eight-year average, but continues to  
10 include inflation adjusted costs in the average.

11 **Adjustment #21 – Annualize O&M non-labor expenses**

12 The Company annualized Test Period O&M expenses (excluding fuel,  
13 purchased power, and labor costs) to reflect the change in costs that  
14 occurred during the test period. ORS witness Major proposes to exclude  
15 this adjustment because "it is based on projected and estimated data rather  
16 than known and measurable expenses." This is not true and the Company  
17 maintains that its adjustment is appropriate. First, the purpose of the  
18 Company's proposal is not to project O&M expenses, but instead to  
19 annualize the impacts of inflation to an end of test period level. The  
20 adjustment takes actual known and measurable inflation metrics  
21 (Consumer Price Index and Producer Price Index) and compares the

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<sup>1</sup> This percentage is based on on-system contractor rates for 2008 and 2017. These are the contractors that DE Progress uses on its system on a regular basis, and relies upon when there is a storm event.

1 average of the test period to the end of test period metrics. These metrics  
2 for the 2017 test period are historic, known and measurable, and publicly  
3 available from the U.S. Bureau of Labor Statistics. This adjustment is very  
4 similar to the customer growth adjustment which the ORS has not  
5 rejected. The customer growth adjustment compares the average number  
6 of customers during the test period to the end of test period number of  
7 customers in order to annualize the impacts of customer growth to an end  
8 of test period level. Both adjustments annualize impacts – one for  
9 customer growth and one for inflation – and both are appropriate to  
10 include.

11 **Adjustment #22 – Normalize O&M labor expenses**

12 The Company's adjustment adjusts the wages and salaries and related  
13 employee benefit costs to reflect annual levels of costs as of July 1, 2018  
14 and also reflects changes in related payroll taxes. The ORS recommends  
15 updating the salary allocator for DEC to the same date as the O&M labor  
16 expense, July 1, 2018, and the Company does not oppose this portion of  
17 the ORS recommendation. However, the Company does not agree with  
18 ORS witness Major's recommendation to remove 50 percent of the  
19 Company's long and short-term incentive ("LTI" and "STI") program  
20 costs for the reasons discussed by Company witness Metzler.

21 **Adjustment #25 – Amortize rate case costs**

22 The Company opposes this adjustment recommended by ORS witness  
23 Payne to disallow the Company to earn a return on the deferred costs

1 during the deferral period and not earn a return during the time period  
2 when the costs are being recovered is discussed above. The Company also  
3 opposes ORS witness Major's recommendation to disallow certain rate  
4 cases expenses due to alleged insufficient documentation to support the  
5 costs. The expenses being challenged are legal services provided by  
6 outside counsel which are billed to the Company using an e-billing  
7 system. Upon contacting the ORS to determine the level of detail they  
8 would need to determine the documentation was sufficient, the Company  
9 was informed that only a paper invoice would suffice. An e-billing system  
10 has been utilized at Duke for the last several years. It is a commonly used  
11 platform and not unusual for a large company to utilize for administrative  
12 efficiency. Instead of paper invoices, outside vendors are given login  
13 credentials to access the system where they input all relevant billing  
14 information (date, matter, rate, hours, description of work performed, etc.)  
15 directly into the system. Once the information is entered, the approving  
16 attorney is prompted to access the system, review the information and  
17 approve or deny the invoice. At all times, the information is provided,  
18 communicated and stored electronically. When a data request is made to  
19 review the billing data, the system exports the data to Microsoft Excel,  
20 which is supplied as the response. For legal invoices, the descriptions of  
21 work performed are reviewed for privileged information before providing.  
22 During discussions with the ORS, the Company offered to provide  
23 screenshots of the data in the system, redact the privileged information by



1 hand before submitting to them or have our vendors sign affidavits  
2 attesting that they have reviewed the information the Company is  
3 providing to the ORS and that it is true and accurate. At the time of this  
4 testimony being finalized, the Company has not heard back from the ORS  
5 but notes that its expenses were reasonably and prudently incurred and no  
6 justifiable reason for disallowance has been given.

7 **Adjustment #29 – Adjust O&M for executive compensation**

8 The ORS agrees with the Company's adjustment to remove 50 percent of  
9 the compensation of the four Duke Energy Executives with the highest  
10 level of compensation allocated to DE Progress in the test period.  
11 However, since ORS witness Major proposed to remove 50 percent of  
12 incentives for all employees in adjustment #22, he added back the 50  
13 percent of incentives for the top four executives in this adjustment. The  
14 Company does not agree with ORS witness Major's recommendation  
15 related to the incentive pay components for all employees, including  
16 linemen, call center representatives, etc., for the reasons discussed by  
17 Company witness Metzler. However, the Company excluded 50 percent of  
18 the compensation, including incentives, of its top four executives in its  
19 original filing, and I have kept that exclusion in this adjustment in  
20 Bateman Rebuttal Exhibit 1, rather than moving it to Adjustment #22 as  
21 ORS witness Major has.

22 **Adjustment #30 – Adjust for Customer Connect Project**

1 The Company has included costs related to its Customer Connect project  
2 which will replace the Company's current billing system and is currently  
3 planned to be placed in service in 2021 and 2022. Due to the nature of the  
4 costs, a significant portion of the spending between now and the in-service  
5 date will be O&M. The ORS has made two recommendations to the  
6 Company's adjustment which the Company opposes. The Company's  
7 opposition to the ORS recommendations regarding deferrals are discussed  
8 earlier in my testimony. In addition, the ORS recommends removing the  
9 Company's proposed increase to O&M. ORS witness Payne states these  
10 costs should be removed because they are not known and measurable. As  
11 stated in my direct testimony, these costs are based on signed contracts.  
12 Portions of the costs are based on amounts specified in the contracts and  
13 the remaining amount can be reasonably estimated based on the activities  
14 the Company is obligated to in the contract. This is comparable to O&M  
15 for a new generation plant. When a new plant is placed in service, the  
16 Company is obligated to operate and maintain that plant and the  
17 Company's obligation is known and can be reasonably measured. The  
18 exact level of O&M is not known, but an approximate level can be  
19 reasonably estimated based on experience operating similar plants. To  
20 allow a utility no level of O&M in rates for the new plant would be  
21 unreasonable. Similarly, to allow the Company no level of O&M, or solely  
22 the amount in the test period of \$160,000, for Customer Connect would  
23 also be unreasonable. At a minimum, the Company's actual O&M in 2018

1 of \$923,000 should be allowed. However, the Company believes its  
2 proposed amount of \$1,387,000 is reasonable and should be allowed.  
3 Company witness Hunsicker, in both her direct and rebuttal testimony,  
4 details the benefits the system will provide to customers and the  
5 Company's commitment to incur the costs through signed contracts.  
6 Removing from this case the operating expenses needed to implement the  
7 project is the same as denying the Company the opportunity to recover  
8 those costs for a new billing system which no one has contested.

9 I will note that an alternative that would still allow the Company  
10 to recover these costs is for the Commission to approve a continuation of  
11 the deferral of the incremental operating expenses incurred related to the  
12 Customer Connect project, including a carrying charge on the deferred  
13 costs, until the Company's next general rate case. This would be a  
14 reasonable alternative to the Company's adjustment related to Customer  
15 Connect and would be similar to the treatment agreed to in partial  
16 settlement and approved by the North Carolina Utilities Commission in  
17 the Company's recent North Carolina rate case.<sup>2</sup>

18 **Adjustment #32 – Synchronize interest expense with end of period**  
19 **rate base**

20 While the amounts calculated by the Company and ORS for this  
21 adjustment are different based on other areas of disagreement, we agree on

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<sup>2</sup> Order dated June 22, 2018, in North Carolina Utilities Commission Docket No. E-7 Sub 1146.

1 the concept of and the method used to calculate this adjustment.

2 **Adjustment #33 – Adjust 1/8 O&M for accounting and pro forma**  
3 **adjustments**

4 The Company's rate base is adjusted to include the additional working  
5 capital required as a result of the additional O&M expenses the Company  
6 is proposing in this proceeding. ORS proposes an adjustment to working  
7 capital which reflects ORS adjustments to O&M expenses. To the extent  
8 that Company does not agree with certain of the ORS's proposed O&M  
9 expense adjustments for the reasons discussed in my testimony, the  
10 Company disagrees with the ORS's amount for this adjustment. However,  
11 we agree on the concept of and the method used to calculate this  
12 adjustment.

13 **Adjustment #36 – Remove Certain Expenses**

14 The Company opposes this adjustment. The ORS recommends removing  
15 O&M expense of \$875,000, from the test period for costs ORS witness  
16 Major characterized as "sponsorships, lobbying expenses, service awards,  
17 advertising, coal ash litigation costs and other miscellaneous items." The  
18 Company reviewed the same transactions that the ORS reviewed and has  
19 agreed to remove \$97,000 from O&M expense. After the Company's  
20 adjustment, there are no lobbying costs or image-building advertising  
21 costs in this case.

1           However, the items in the ORS's adjustment the Company  
2           disagrees with removing in this proceeding primarily fall into the  
3           following categories:

4           1. **Employee incentives, service & safety awards, and any costs to**  
5           **recognize and reward the Company's employees who serve our**

6           **customers.** The appropriateness of these costs is addressed in the  
7           rebuttal testimony of Company witness Metzler.

8           2. **Lineman's Rodeo costs.** The Lineman's Rodeo is an industry  
9           event where linemen share best practices and compete in events  
10          where they have the opportunity to display and hone their skills as  
11          linemen to provide reliable service (ex. Pole top rescue, proper  
12          insulation techniques) to the benefit of our customers. Prior to the  
13          event, linemen are training to prepare for the event, which has the  
14          benefit of additional preparation for their jobs. The appropriateness  
15          of these costs is addressed in the rebuttal testimony of Company  
16          witness Metzler.

17          3. **Organization dues.** These membership dues for local South  
18          Carolina Chambers of Commerce and other local South Carolina  
19          organizations that promote economic development in South  
20          Carolina, such as the Historic Marion Revitalization Association  
21          and the Darlington Downtown Revitalization Association, are  
22          appropriately included in the case. Chamber of Commerce  
23          organizations promote policies, initiatives and principles that

1 benefit all citizens through economic investments, job creation and  
2 retention, strong schools, and attracting and retaining business  
3 development. As the Greater Florence Chamber of Commerce puts  
4 it, its mission is to “Promote and enhance a favorable business  
5 climate and improve the quality of life to make Florence the best  
6 community in which to live and operate a business.” Membership  
7 in the various Chambers of Commerce and other Civic  
8 organizations is an integral part of managing our business  
9 responsibly on behalf of our customers and keeping in contact with  
10 a very important segment of our customers.

11 Funds paid to these organizations that are not specified as a  
12 donation or lobbying on the invoice are generally in support of  
13 business, economic development and the communities we serve. It  
14 is reasonable, as explained by Witness Gharthey-Tagoe, that the  
15 Company participates in these organizations to best serve the  
16 communities in which our customers live and in which we operate.

- 17 **4. Costs that are not 100 percent related to South Carolina.** The  
18 ORS removed several transactions that it labeled as “not related to  
19 SC.” For example, the ORS removed registration fees paid to the  
20 North Carolina Department of Motor Vehicles (“DMV”) for  
21 transmission vehicles. However, the ORS made no adjustment to  
22 accept the full cost of fees paid to the South Carolina DMV that  
23 were also allocated between North Carolina and South Carolina.

1 Transmission assets are considered system assets and the costs to  
2 maintain those assets, including registration fees on company  
3 vehicles, are appropriately allocated to all customers based on peak  
4 demand. Therefore, the Company allocated the registration fees for  
5 transmission vehicles paid to both the North Carolina and the  
6 South Carolina Departments of Motor Vehicle to all customers  
7 based on a transmission allocator. On other costs that could be  
8 direct assigned by state, such as bill inserts, the ORS  
9 recommended removing the costs for North Carolina bill inserts  
10 that were allocated between North Carolina and South Carolina,  
11 but did not recommend direct assigning 100 percent of the costs  
12 for South Carolina bill inserts to South Carolina. If the ORS had  
13 direct assigned both North Carolina and South Carolina bill insert  
14 costs, it likely would have ended up in a similar place as the  
15 Company achieved through applying an allocator based on number  
16 of customers. The key point is that the ORS is focused on what  
17 costs South Carolina customers should not pay, but ignores the  
18 effect of that same logic on what costs South Carolina customers  
19 should bear under that same theory.

20 5. **Timing differences.** The Company believes that the 2017 test year  
21 amount requested for recovery in this proceeding is representative  
22 of the Company's expenses for a 12-month period. The ORS  
23 removed various transactions due to the invoice date and the date

1 the invoice was paid being in different calendar years. For  
2 example, if the invoice was dated 2016 and paid in 2017 the ORS  
3 removed the expense from the test year. However, this ignores the  
4 fact that the Company uses accrual accounting. When the expenses  
5 are incurred, the Company will accrue an estimated expense if the  
6 amount meets a certain threshold per the Company's accrual  
7 policy. Then, when the invoice is received and processed, which  
8 may be the following calendar year, the Company reverses the  
9 accrual and books the actual expense. This suggests the ORS  
10 believes unless an expense is paid in the year it is incurred it  
11 should not be recovered from customers, ignoring the concept of  
12 accrual accounting in the removal of these expenses.

13 6. **Litigation expenses.** The Company opposes ORS witness Major's  
14 recommendation to remove litigation expenses in this adjustment  
15 for the reasons set forth in the rebuttal testimony of Company  
16 witness Wright.

17 **Adjustment #40 – Customer Growth**

18 While the amounts calculated by the Company and ORS for this  
19 adjustment are different based on other areas of disagreement, we agree on  
20 the concept of and the method used to calculate this adjustment.



*Remaining Adjustments Opposed by the Company*

**Q. OF THE REMAINING ADJUSTMENTS THAT THE COMPANY OPPOSES, WHICH ONES ARE RESPONDED TO BY OTHER COMPANY WITNESSES?**

**A.** The following ORS adjustments from Audit Exhibit KLM-2, are responded to by other Company witnesses in rebuttal testimony

**Debt cost rate of 4.06 percent**

The Company has updated the cost of debt to 4.16 percent, reflecting the cost of debt financing through December 2018. This adjustment is further discussed in the rebuttal testimony of Company witness Sullivan.

**Change in return on equity from 10.50 to 9.30 percent**

The Company opposes this adjustment for the reasons set forth in the rebuttal testimony of Company witness Hevert.

**Adjustment #15 - Adjust reserve for end of life nuclear costs**

The Company opposes the ORS's position on this adjustment for the reasons set forth in the rebuttal testimony of Company witness Henderson.

**Adjustment #28 – Adjust for credit card fees**

The Company opposes the ORS's position on this adjustment for the reasons set forth in the rebuttal testimony of Company witness Quick.

**Adjustment #38 – Adjust for Ongoing Payment Obligation**

The Company opposes the ORS's position on this adjustment for the reasons set forth in the rebuttal testimony of Company witness Coppola.

1           **Adjustment #39 – Adjust for Nuclear Supplies and Materials**  
2           **Adjustment**

3           The Company opposes the ORS's position on this adjustment for the  
4           reasons set forth in the rebuttal testimony of Company witness Henderson.

5   **Q.    DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

6   A.    Yes.